

## Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 NEAE-00 SSO-00 NSC-05 NSCE-00  
INR-05 CIAE-00 TRSE-00 EB-04 AID-05 SP-02 OMB-01 L-01  
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FM AMEMBASSY NEW DELHI  
TO SECSTATE WASHDC IMMEDIATE 1822

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LIMDIS

PASS TREASURY AND AID

EO 11652: GDS  
TAGS: EAID, IN  
SUBJ: IDA REPLENISHMENT

BEGIN SUMMARY: ON MARCH 9 CHARGE RESPONDED TO SECRETARY MANMOHAN SINGH'S EARLIER DEMARCHE ON IDA V ALONG LINES OF INSTRUCTIONS CONTAINED IN STATE 050289 AND 051869. SINGH VOICED THE DEEPEST REGRET THAT THE USG IN THE FIRST ACTION OF THE NEW ADMINISTRATION TOWARD INDIA SOUGHT A REDUCTION IN INDIA'S SHARE OF IDA FUNDS. HE REGRETTED THAT WHAT HE TERMED A "POLITICAL FACTOR" WAS BEING INJECTED INTO A MULTILATERAL ISSUE, IE., THAT REPLENISHMENT OF IDA WAS BEING LINKED TO REDUCTION OF ONE COUNTRY'S SHARE. HE SAID THAT IF A REALLOCATION OF IDA FUNDS WAS MADE AS A RESULT OF AN OBJECTIVE ANALYSIS MADE BY IDA AND NOT BY A MEETING OF DONORS ONLY, INDIA WOULD GO ALONG WITH THE DECISION, BUT HE CONTENTED THAT SUCH AN ANALYSIS WOULD SHOW THAT INDIA WAS IN FACT UNDER-AIDED. SINGH THOUGHT THAT BY TABLING THIS ISSUE AT THE DONORS MEETING THE MATTER WAS BEING PREJUDGED. THAT THE US POSITION HAD

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CHANGED SO DRASTICALLY BETWEEN ASSISTANT SECRETARY BERGSTEN'S TESTIMONY ON THE HILL AND THE PARIS MEETING A FEW DAYS LATER HAD COME AS A SURPRISE TO HIM. INDIAN PUBLIC OPINION COULD PUT NO OTHER CONSTRUCTION ON THIS DEVELOPMENT THAN THAT IT CONSTITUTED A MOVE AGAINST INDIA. HE VOICED HIS HOPE THAT THE US WOULD CONSENT TO AN OBJECTIVE ANALYSIS BEING MADE AND SAID THAT INDIA WOULD NOT

OBJECT IF IT WAS NOT APPARENT THAT ONE COUNTRY WAS BEING  
SINGLED OUT. END SUMMARY

1. THE CHARGE AND THE ECONOMIC COURNBOR MET WITH DEA  
SECRETARY MANMOHAN SINGH AND ADDITIONAL SECRETARY MALHOTRA  
AND MINISTRY EXTERNAL AFFAIRS JOINT SECRETARY MADHAVAN ON  
MARCH 9 TO REPLY TO SINGH'S EARLIER DEMARCHE ON IDA V.

THE CHARGE BEGAN THE DISCUSSION BY DESCRIBING THE STRATEGY  
THE NEW ADMINISTRATION WAS USING TO PREPARE FOR THE NORTH/  
SOUTH DIALOGUE AND DESCRIBED ITS COMMITMENT TO INCREASE  
FOREIGN ASSISTANCE PROGRAMS THROUGH INTERNATIONAL DEVELOP-  
MENT BANKS, AND IN DIRECT BILATERAL AID. HE QUOTED  
STATEMENTS BY SECRETARIES VANCE AND BLUMENTHAL IN THIS  
REGARD, AND THEN REVIEWED THE REQUEST BY THE ADMINISTRA-  
TION FOR NOT ONLY CATCHING UP ON CONTRIBUTIONS TO INTER-  
NATIONAL DEVELOPMENT BANKS BUT TO ASK FOR APPROPRIATIONS  
FOR THE US SHARE OF CONTRIBUTIONS TO IDA V.

2. THE CHARGE EXPLAINED THAT, AFTER MAKING PRESENTATIONS  
TO CONGRESS, THE ADMINISTRATION BECAME AWARE OF STRONG  
CONGRESSIONAL DISPLEASURE WITH PRESENT ALLOCATION OF  
IDA FUNDS. AS A RESULT, AT THE PARIS MEETING ON FEBRUARY  
25, THE ADMINISTRATION ASKED THAT A REVIEW BE CONDUCTED  
ON COUNTRY ALLOCATIONS OF IDA. THE US CITED SEVERAL  
COUNTRIES WHO BY VIRTUE OF THEIR PRESENT ECONOMIC DIFFICUL-  
TIES - HIGH DEBT SERVICE RATIO, FOR EXAMPLE - WERE IN  
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NEED OF INCREASED ALLOCATIONS OF CONCESSIONAL LOANS. A  
REVIEW WAS ALSO BEING REQUESTED TO ENHANCE THE PROSPECTS OF  
CONGRESSIONAL APPROVAL OF FULL US CONTRIBUTION TO IDA.

3. AS INDIA LOOMS SO LARGE AS A RECIPIENT OF IDA FUNDS,  
THE CHARGE SAID, IT WAS INEVITABLE THAT CURRENT SHARE  
FOR INDIA WOULD BE REDUCED IF OTHER COUNTRIES WERE TO  
HAVE INCREASED AVAILABILITY OF IDA FUNDS. THE USG  
DESIRED, HOWEVER, THAT COMBINED IBRD/IDA ASSISTANCE TO  
INDIA UNDER THESE REPLENSIHMENTS WOULD NOT DECREASE IN  
REAL TERMS. IF FULL \$800 MILLION CONTRIBUTION FOR IDA V,  
IS APPROVED, RESULT COULD BE SUBSTANTIALLY LARGER AID IN-  
FLOWS, FOR INDIA INCLUDING LARGER INFLOWS FROM IDA; BUT  
ACTUAL OUTCOME WOULD DEPEND NOT JUST ON SPECIFIC COUNTRY  
PERCENTAGES BUT ALSO ON TOTAL AMOUNT APPROPRIATED BY  
CONGRESS. THUS INDIA COULD GAIN FROM SUCCESSFUL REPLEN-  
ISHMENT WHILE INDIA AND OTHER LDCS WERE CERTAIN TO LOSE  
IF IT FAILED.

4. THE CHARGE EXPLAINED THAT THE US DID NOT VIEW ITS REQUEST FOR A REVIEW AS AN ATTEMPT TO HURT INDIA OR TO CARRY BILATERAL AID CONSTRAINTS OVER INTO A MULTILATERAL FORUM. HE ALSO NOTED THAT THE USG WAS REVIEWING THE QUESTION RAISED INFORMALLY BY THE GOI ON THE US RESPONSE TO A POSSIBLE NET NEGATIVE TRANSFER POSITION WITH INDIA. THE CHARGE NOTED THAT WE HAD NOT BEEN ABLE TO KEEP THE GOI INFORMED AS THE SITUATION HAD MOVED VERY FAST BUT NOW THAT WE HAD DONE SO, THE US HOPED INDIA UNDERSTOOD WHAT WE WERE ATTEMPTING TO DO. WE WANTED TO IMPROVE COMMUNICATIONS AND IN THIS CONNECTION WE WONDERED IF MANMOHAN SINGH MIGHT BE ABLE TO VISIT WASHINGTON TO DISCUSS IDA, BILATERAL ASSISTANCE, NORTH/SOUTH DIALOGUE AND OTHER BILATERAL ISSUES.

5. MANMOHAN SINGH RESPONDED THAT THE GOI IS ENCOURAGED BY WHAT THEY HAD HEARD OF USG WILLINGNESS TO BE MORE CONFIDENTIAL

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FORTHCOMING IN THE NORTH-SOUTH DIALOGUE. HE RECALLED THAT AT THE NON-ALIGNED CONFERENCE LAST FALL THE PRIME MINISTER SAID THAT INDIA WAS NOT INTERESTED IN CONFRONTATION BUT IN COOPERATION WITH THE DEVELOPED COUNTRIES. THIS POLICY WILL CONTINUE AND INDIA WELCOMES USG TAKING THE NORTH-SOUTH DIALOGUE SERIOUSLY.

6. HE WOULD BE LESS THAN FRANK, HOWEVER, IF HE DID NOT SAY THAT ALMOST THE FIRST ACTION OF THE NEW ADMINISTRATION TOWARD INDIA WAS TO SEEK A REDUCTION IN INDIA'S SHARE OF IDA FUNDS. IT WOULD NOT BE A POPULAR ACTION IN INDIA AND HE VOICED THE DEEPEST REGRET THAT THE USG CAME TO THIS CONCLUSION EVEN BEFORE REPLENISHMENT OF IDA WAS ON THE TABLE IN A MULTILATERAL CONTEXT.

78 HE SAID THAT THE FACT A MIX OF IBRD/IDA LOANS WOULD NOT DECLINE WAS NOT A GOOD POSITION FOR INDIA. THAT INDIA'S DEBT SERVICING POSITION HAD IMPROVED AND THAT SHE NOW HAD GREATER LIQUIDITY DID NOT TAKE AWAY THE NEED FOR CONCESSIONAL ASSISTANCE. DEVELOPMENT PROGRAMS WERE TO BE STEPPED UP AND THE FOREIGN EXCHANGE SITUATION WAS NOT SO GOOD AS TO REQUIRE A RETHINKING AT THIS TIME.

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 NEAE-00 SSO-00 NSC-05 NSCE-00  
INR-05 CIAE-00 TRSE-00 EB-04 AID-05 SP-02 L-01 H-01  
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PASS TREASURY AND AID

8. POLITICS WILL ALWAYS BE INVOLVED, OF COURSE, HE SAID, A FACT WHICH IS TRUE FOR THE US AS IT IS FOR INDIA. HE UNDERSTOOD THESE REALITIES. BUT TO HAVE A POLITICAL FACTOR INJECTED INTO A MULTILATERAL ISSUE LINKING REPLENISHMENT OF IDA TO A REDUCTION OF ONE COUNTRY'S SHARE CARRIES IT FAR BEYOND THE NORM.

9. SINGH SAID THAT IF AN OBJECTIVE ANALYSIS WERE TO BE MADE BY IDA (NOT BY A MEETING OF DONORS ONLY) AND THIS WAS USED AS A BASIS FOR DETERMINING COUNTRY SHARE, INDIA WOULD GO ALONG; BUT HE CONTENDED THAT SUCH AN ANALYSIS WOULD SHOW THAT INDIA WAS IN FACT UNDER-AIDED. INDIA'S CASE FOR AID WAS EVEN STRONGER NOW THAN IT HAD BEEN PREVIOUSLY. THE PAST SAW INDIA NEAR ECONOMIC COLLAPSE, BUT OVER THE PAST FEW MONTHS MUCH HAS BEEN DONE TO IMPROVE ECONOMIC MANAGEMENT. HOWEVER, IT WAS STILL FAR FROM CERTAIN WHETHER REAL STRUCTURAL CHANGES HAD BEEN MADE. NOW, AT A TIME WHEN IT WAS POSSIBLE TO SHOW REAL IMPROVEMENT, THE US TIMING WAS PARTICULARLY UNFORTUNATE. HE STILL HOPED THAT THE US WOULD BASE THIS MATTER ON AN OBJECTIVE ANALYSIS AND NOT ON A SPECIFIC COUNTRY, AND THAT THE

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ULTIMATE DECISION SHOULD BE LEFT TO THE INTERNATIONAL BANK MANAGEMENT TO DETERMINE.

10. MALHOTRA REPEATED THAT IT WOULD BE MOST UNFORTUNATE IF THE US, WHICH STILL CONTRIBUTED ONE-THIRD TO IDA, SINGLED OUT ONE COUNTRY AND SOUGHT AN AGREEMENT, EITHER INFORMAL OR FORMAL, AT THIS STAGE WHEN THE MATTER SHOULD BE TAKEN UP LATER IN A MULTILATERAL FORUM. HE SAID THE

US POSITION WAS THAT THE REDUCTION WOULD NOT ONLY APPLY TO THE US PORTION OF THE CONTRIBUTION, BUT TO THE CONTRIBUTIONS OF ALL DONOR COUNTRIES. THIS WOULD GO FAR BEYOND THE CONSTRAINTS OF OUR BILATERAL RELATIONSHIP. IF THE SAME RESULTS WERE TO BE DECIDED ON BY A UNIVERSAL ECONOMIC ANALYSIS AT THE RIGHT TIME, HOWEVER, THEN IT WOULD BE POSSIBLE FOR INDIA TO GO ALONG. MATTERS SUCH AS THIS OUGHT TO BE DECIDED BY THE IFIS AND THE DECISION LEFT THERE. THE WORLD BANK HAD SAID THAT INDIA WAS THE LEAST AIDED OF THE DDCS BUT AT THE SAME TIME HAD DONE THE MOST TO DEVELOP ITSELF. INDIA WAS PREPARED THEREFORE TO LET A DECISION STAND THAT WOULD BE BASED ON ANY ECONOMIC CRITERION.

11. MANMOHAN SINGH THEN SAID THAT THE ANALYSIS SHOULD BE OBJECTIVE AND OUGHT NOT TO BE PREJUDGED. INDIA HAD LOOKED FORWARD TO THE NEW ADMINISTRATION WITH THE HOPE THAT IT WOULD MEAN A NEW ECONOMIC COOPERATION BETWEEN OUR TWO COUNTRIES. THERE WERE FEW CONFLICTS BETWEEN US IN ANY EVENT, SO TO INTRODUCE THIS MATTER SO EARLY ON CONSTITUTED AN UNWELCOME DEVELOPMENT. IT HAD COME AS A SURPRISE TO HIM. IT WOULD BE DIFFICULT TO CONVINCE PUBLIC OPINION THAT BETWEEN FEBRUARY 17 AND 25 (TIME BETWEEN ASSISTANT SECRETARY BERGSTEN'S TESTIMONY ON THE HILL AND THE PARIS MEETING) INDIA'S ECONOMIC SITUATION HAD CHANGED SO DRAMATICALLY. IT WOULD INEVITABLY BE TAKEN AS A POLITICAL ACTION. PEOPLE WOULD SEE THIS AS A MOVE AGAINST INDIA AS NO OTHER COUNTRY HAS BEEN MENTIONED.

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THE LAYMAN COULD PUT NO OTHER CONSTRUCTION TO THESE DEVELOPMENTS.

12. THE CHARGE RESPONDED THAT ON THE MATTER OF TIMING IT WAS NECESSARY BECAUSE CONGRESS WAS CONSIDERING THE REQUEST FOR REPLENISHMENT AT THIS TIME. THE US ITSELF WAS NOT IN A POSITION TO MAKE A DECISION ON INDIA, SO WE ARE PROPOSING A REVIEW ON A WIDER SHARE OF IDA FUNDS TO PROTECT THE PROSPECTS FOR REPLENISHMENT. IF NOT, IDA MAY WELL NOT BE ABLE TO CONTINUE TO FUNCTION. HE ASSUMED THAT THE GOI WOULD UNDERSTAND FROM HIS PRESENTATION THAT THIS WAS NOT A POLITICAL ACTION ON THE PART OF THE US NOR AN ATTEMPT TO "PUNISH" INDIA OR PENALIZE HER FOR HER IMPROVED ECONOMIC PERFORMANCE. THE REVIEW WILL APPLY TO OTHER COUNTRIES AS WELL. INDIA LOOMS SO LARGE AMONG THE RECIPIENT COUNTRIES, HOWEVER, THAT ATTENTION WAS OBVIOUSLY FOCUSED ON HER. HE HAD ASKED WASHINGTON SPECIFICALLY ON THIS POINT, AND THE RESPONSE WAS THAT IT WAS POSSIBLE THAT SOME COUNTRIES WOULD GET MORE AND SOME COUNTRIES LESS BUT THAT ALL COUNTRIES WOULD BE EXAMINED.

INDIA, HOWEVER, BECAUSE OF ITS SIZE WAS BOUND TO FIGURE LARGE IN THIS REVIEW.

13. MR SINGH THEN SAID THAT OTHER COUNTRIES HE HAD HEARD MENTIONED IN CONNECTION WITH THE PARIS MEETING THAT SHOULD GET MORE IDA FUNDS WERE ALREADY RECEIVING HIGHER PER CAPITA LOANS AND HAVE OTHER SOURCES OF CONCESSIONAL ASSISTANCE AS WELL. THE CHARGE AGAIN RAISED THE ISSUE OF DEBT SERVICE RATION. SINGH THEN REITERATED HIS HOPE THAT THE US WILL CONSENT TO AN OBJECTIVE ANALYSIS. INDIA COULD NOT OBJECT SO LONG AS IT WAS NOT APPARENT THAT ONE COUNTRY WAS BEING SINGLED OUT. HE REITERATED THEIR CONCERN THAT THIS ISSUE WAS BEING PREJUDGED AT AN EARLY STAGE. IN FACT, THE SUBJECT SHOULD NOT COME UP AT THE VIENNA MEETING BUT SHOULD BE DISCUSSED AT THE BANK AFTER REPLENISHMENT SO THAT POLITICAL FACTORS COULD NOT BECOME CONFIDENTIAL

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A PART OF THE DELIBERATIONS. HE AGAIN SAID THAT WHILE HE UNDERSTOOD THAT WHILE POLITICAL FACTORS WOULD INEVITABLY BE USED BY ALL COUNTRIES, THE MAN IN THE STREET DID NOT UNDERSTAND THIS POSITION.

14. THE CHARGE EXPRESSED THE HOPE THAT WE COULD CONTINUE DISCUSSIONS AS NEEDED: THAT THE EVENTUAL OUTCOME WOULD BE INCREASED RESOURCES FOR INDIA; AND THAT IT BE DONE IN A WAY THAT NO POLITICAL CONNOTATION WOULD BE PERCEIVED.

15. MR SINGH THANKED THE CHARGE FOR THE INVITATION TO VISIT WASHINGTON BUT THOUGHT THAT PREPARATIONS FOR THE BUDGET SUBMISSION MADE IT UNLIKELY THAT HE COULD GO AT THIS TIME. IF HE THOUGHT SOME USEFUL PURPOSE COULD BE SERVED BY A VISIT IN THE FUTURE, HE WOULD KEEP IT IN MIND. THE CHARGE SAID THE INVITATION WOULD CERTAINLY BE KEPT OPEN.

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## Message Attributes

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**To:** STATE  
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